

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 MMO-01
IGA-02 AGRE-00 /087 W
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R 191305Z APR 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 1144
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 3085

E.O. 11652: N/A
TAGS: ECON, BR
SUBJ: BRAZILIAN ECONOMIC INDICATORS

1. SUMMARY. PRELIMINARY DATA INDICATES THAT THE
BRAZILIAN ECONOMY CONTINUED TO GROW AT A RAPID RATE
DURING THE FIRST QUARTER OF THIS YEAR. INDUSTRIAL
PRODUCTION INCREASED AT A 7 PERCENT
ANNUAL RATE, ALTHOUGH THERE WERE SLOWDOWNS IN SEVERAL
SECTORS, INCLUDING THE AUTOMOBILE, DOMESTIC APPLIANCES,
AND REAL ESTATE INDUSTRIES. INFLATION CONTINUES VERY
HIGH: THE FIRST QUARTER INFLATION WAS OVER 11.5
PERCENT. THE COST-OF-LIVING INDEX HAS BEEN "GIMMICKED"
TO REDUCE THE INFLUCNCE OF THE HIGH COST OF FOODS,
THE BASIC CAUSE OF THE HIGH INFLATION X EXPORTS WERE UP
AN ESTI-
MATED 40 PERCENT IN VALUE, CLOSING THE TRADE
DEFICIT TO DOLS 100-200 MILLION FOR THE QUARTER. THE
PLANNING MINISTER HAS PREDICTED THAT BRAZIL WILL DECREASE
1977 NET FOREIGN CAPITAL INFLOWS TO DOLS 3.5-4.0 BILLION.
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END SUMMARY.

1. INDUSTRY. ACCORDING TO MINISTER OF
PLANNING VELLOSO, INDUSTRIAL PRODUCTION HAS
INCREASED AT A 7 PERCENT ANNUAL RATE THROUGH
THE FIRST TWO MONTHS OF THE YEAR. THE CAPITAL
GOODS AND BASIC INPUT SECTORS GREW AT A 10-15

PERCENT RATE. THIS CONTINUED HIGH GROWTH IS REFLECTED IN THE 10.8 PERCENT INCREASE IN INDUSTRIAL CONSUMPTION OF ELECTRIC POWER THROUGH FEBRUARY. NOT ALL SECTORS, HOWEVER, ARE EXPANDING. THE DOMESTIC-APPLIANCE INDUSTRY HAS EXPERIENCED A SLOWDOWN AND, IN THE AUTO INDUSTRY, VEHICLE PRODUCTION IS OFF 4 PERCENT AND SALES DOWN 9 PERCENT FROM A YEAR AGO. BASED ON A SAO PAULO INDUSTRIAL EMPLOYMENT INDEX, OTHER SECTORS THAT EXPERIENCED A SLOWDOWN IN JANUARY AND FEBRUARY INCLUDE: METAL WORKING, PAPER AND PAPER PRODUCTS; FURNITURE. ORDERS FOR THE CAPITAL GOODS INDUSTRY ARE ALSO DOWN.

2. INFLATION. AS MEASURED BY THE RECENTLY MODIFIED GENERAL PRICE INDEX, ACCUMULATED INFLATION FOR THE FIRST QUARTER WAS 11.5 PERCENT. THE INCREASE IN MARCH WAS 4.2 PERCENT. FOOD COSTS, ESPECIALLY PRICES OF FRUITS AND VEGETABLES, HAVE BEEN A MAJOR FACTOR IN THE RECENT SURGE OF INFLATION. AS A RESULT, THE GETULIO VARGAS FOUNDATION, FOLLOWING A SUGGESTION MADE BY THE MINISTER OF FINANCE, HAS, STARTING IN MARCH, ADOPTED A POLICY OF CHANGING THE WEIGHT OF A PARTICULAR COMMODITY IN THE COST-OF-LIVING BASKET WHENEVER THE PRICE OF THAT COMMODITY REGISTERS AN UNUSUAL RISE RELATIVE TO OTHER SUBSTITUTABLE PRODUCTS. (DETAILS BEING REPORTED BY SEPARATE AIRGRAM). THE OPERATIVE ASSUMPTION IN THIS CHANGE IS THAT WHEN THE PRICE LIMITED OFFICIAL USE

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OF A COMMODITY INCREASES ITS CONSUMPTION GOES DOWN, IN THIS CASE, UNITARY ELASTICITY IS ASSUMED, I.E., CONSUMPTION IS REDUCED BY THE SAME PERCENTAGE AS THE PERCENTAGE INCREASE IN PRICE.

3. EXTERNAL SECTOR. EXPORTS ARE ESTIMATED AT DOLS 2.6 BILLION (COFFEE: DOLS 1 BILLION) FOR JANUARY-MARCH, A 40 PERCENT INCREASE IN VALUE OVER THE SAME PERIOD A YEAR AGO. EXPORTS OF MANUFACTURED PRODUCTS HAVE INCREASED 25 PERCENT (OMITTING SOLUBLE COFFEE THE INCREASE IS ABOUT 15 PERCENT). THE FIRST QUARTER TRADE DEFICIT IS ESTIMATED AT DOLS 100-200 MILLION. THE PLANNING MINISTER HAS STATED THAT DOLS 1.4 BILLION IN FOREIGN CAPITAL ENTERED BRAZIL IN THE FIRST QUARTER. HE PREDICTED THAT BRAZIL'S (NET) EXTERNAL CAPITAL NEEDS FOR 1977 WOULD AMOUNT TO DOLS 3.5-4 BILLION AS COMPARED TO OVER DOLS 6 BILLION IN 1976.

4. MONEY SUPPLY. ACCORDING TO THE FINANCE MINISTER, THE MONEY SUPPLY AT THE END OF MARCH WAS 4.2 PERCENT BELOW DECEMBER'S LEVEL. GIVEN THE 11.5 PERCENT RATE OF INFLATION DURING THE SAME PERIOD, THE DROP IN THE MONEY SUPPLY IN REAL TERMS WAS ON THE ORDER OF 15.0 PERCENT. PARTLY BECAUSE OF THIS DECREASE IN THE MONEY SUPPLY, SIMONSEN IS HOPEFUL THAT INFLATION WILL BE SHOWING SIGNS OF DECELERATION IN THE COMING MONTHS.

5. COMMENT: AS INDICATED BY THE CONTINUED HIGH RATE OF INFLATION AND RAPID PACE OF ACTIVITY IN MANY SECTORS, THE ECONOMY HAS THUS FAR IN 1977 NOT SHOWN, MANY VISIBLE SIGNS OF DECELERATION -- DESPITE POLICY EFFORTS TO SLOW IT DOWN. IF THE RECENT DOWNWARD TRENDS LIMITED OFFICIAL USE

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MANIFESTED IN SUCH KEY INDUSTRIES AS TUTORMOBILES, DOMESTIC-APPLIANCES, AND REAL ESTATE CONTINUE, HOWEVER, FOR THE NEXT SEVERAL MONTHS, THEN THE ECONOMY SHOULD COOL-OFF DURING THE SECOND HALF. THE RATE OF GROWTH IN THE FIRST QUARTER WAS UNDESIRABLY HIGH, LEADING THE NEWLY-APPOINTED

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PRESIDENT OF THE BANCO TO BRASIL TO CHARACTERIZE IT AS "FRIGHTENING." THE SITUATION IN THE FIRST THREE MONTHS WAS THUS A CONTINUATION OF LAST YEAR'S PERFORMANCE WHEN THE RATE OF GROWTH SURPASSED ALL EXPECTATIONS. HOWEVER, THE DECLINE IN ORDERS OF THE CAPITAL GOODS SECTOR (PARA 1) MAY BE A SIGN THAT A DECELERATION OF THE ECONOMY MAY BE UNDER WAY.

6. WITH RESPECT TO INFLATION, THE BEHAVIOR OF THE NON-FOOD COMPONENT OF THE INFLATION INDEX INDICATES THAT THE UNDERLYING RATE OF INFLATION IS CONSIDERABLY LESS THAN THE MOVEMENT OF THE OVERALL INDEX. THE WHOLESALE PRICE INDEX (INTERNAL SUPPLY) OF FOOD PRICES WAS UP 51 PERCENT DURING THE LAST 12 MONTHS WHEREAS THAT OF INDUSTRIAL PRODUCTS WAS UP BY ONLY 39 PERCENT. THE HIGHER PRICE OF FOOD IS ATTRIBUTABLE TO SEASONAL FACTORS AND TO BAD CROPS FOR ANUMBER OF PRODUCTS. THIS IS HOPEFULLY A SHORT-TERM PHENOMENA WHICH SHOULD IMPROVE AS WE PROCEED
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INTO THE YEAR. SIMONSEN WOULD NOT MAKE ANY PREDICTIONS ABOUT INFLATION THIS YEAR, HOWEVER, SAYING ONLY THAT IT SHOULD BE LESS THAN LAST YEAR (I.E., LESS THAN 46.3 PERCENT). A FEW MONTHS AGO, HE WAS SAYING PRIVATELY THAT HE EXPECTED INFLATION AT AROUND 30 PERCENT. HE HAS APPARENTLY ABANDONED THAT IDEA AND IS NOW HOPING FOR SOMETHING LESS THAN 46.0 PERCENT.

7. PARTS OF THIS MESSAGE WERE PREPARED BY CONGEN RIO.
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